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How Canada's Tax System Discourages Investment

Duanjie Chen and
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The Backgrounder in Brief

Canadians cannot sit back and believe that they have achieved their best in cutting taxes on business and entrepreneurial investments in the past few years. Federal and provincial budgets should provide additional personal and corporate tax cuts to improve Canada's productivity performance.

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After recent cuts to corporate- and capital-gains taxes, with more to come from Ottawa and some provinces, Canadians may feel that their tax system is now competitive for corporate and entrepreneurial investments and that further actions to cut corporate and personal taxes on investments are unwarranted. Not so. With the 2002 tax measures adopted in the United States, Canada's effective tax rate on capital is well above US rates. Even though Canada's statutory tax rate on corporate income is now below that of the United States and will fall even lower by 2006, the tax treatment of depreciation, inventory costs and the general absence of capital taxes in the United States puts Canadian investment projects at a significant disadvantage. As well, relatively high personal taxes on income derived from capital discourage Canadian entrepreneurial capital investments, a disadvantage that will be made greater if the Bush administration succeeds in getting congressional approval for exempting dividends from taxation. The lack of investment resulting from high business and entrepreneurial taxes will undermine attempts to improve productivity and innovation in Canada. Federal and provincial budgets should provide additional corporate and personal tax reductions to improve investment and entrepreneurship.

Canada's tax treatment of depreciation, inventory costs and the general absence of capital taxes in the United States puts Canadian investment projects at a significant disadvantage.

Federal and provincial governments began cutting corporate and personal taxes in 2000, creating a better business environment for investment in Canada. Ottawa reduced the federal corporate income tax rate a further two points on January 1, 2003, and it will fall another two points to 21 percent by 2004. After delaying a reduction, Ontario is now planning to cut its corporate income-tax rate further, from 11 to eight percent, and Alberta may further reduce its rate in the future. Several other provinces, such as New Brunswick and Manitoba, have planned further corporate tax rate cuts as well. Also, some provinces, particularly British Columbia, Quebec and Alberta, are reducing or eliminating capital taxes. Federal and provincial governments also reduced personal taxes on income derived from investments (dividends, capital gains and interest) and other cuts are planned.

These tax cuts are welcome because they encourage capital investment.[1] Canada lags the United States in investment in such areas as manufacturing (Bernstein, Harris and Sharpe 2002), compromising Canada's ability to produce and sell more products and services. Capital investment supports innovation and productivity because investments in new equipment and structures are critical to entrepreneurs looking to put their ideas in practice or to adopt new technologies. With greater capital investment, workers benefit from higher incomes arising from improved productivity.

Are these tax cuts sufficient, however, to make Canada more competitive for business investment? In this *Backgrounder*, we provide estimates of effective tax

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1 Several studies have shown that capital investment is encouraged by reductions in taxes on investment. See Mintz (1995) for a survey. See also Jorgensen and Yun (2001) for a recent analysis of US tax reform that results in substantial economic gains by reducing levies on capital investment.

rates on capital for large corporate investments and entrepreneurial capital (the latter applying to Canadians who carry out their activities through unincorporated businesses and privately held corporations) and compare them to the United States and selected countries. The overall conclusion is that Canada's tax system remains a barrier to capital investment in Canada, especially compared to the United States, where recent measures have sharply reduced taxes on capital investments. Substantial gains in productivity and income earned by Canadians could be achieved if Canada pursues a path of further cutting taxes on investments in upcoming federal and provincial budgets.

How Taxes Affect Capital Investment

A key criterion for businesses thinking about capital investments is that the rate of return, net of taxes, is more than the rate of return available elsewhere. For example, suppose a manufacturing business earns a risk- and inflation-adjusted rate of return on an investment project of 15 percent, but is reduced by taxes by one half to 7.5 percent. If 7.5 percent is as good as what an investor could get elsewhere on an after-tax, risk-adjusted basis for an investment, then the investor would be willing to provide funds to the business to undertake the project. However, if 7.5 percent is below what an investor could earn elsewhere, such as ten percent, the business will not be able to fund the investment. A business will invest only in high-yielding capital projects, resulting in the pre-tax rate of return to capital of 15 percent increasing by a sufficient amount — such as to 20 percent — so that the business can offer an after-tax rate of return of, say, ten percent, that can attract financing from owners.

A key criterion for businesses thinking about capital investments is that the rate of return, net of taxes, is more than the rate of return available elsewhere.

Several taxes paid by businesses and people lower the rate of return that a business can earn on investment. Business-level taxes include the corporate income tax, asset-based taxes (including the capital tax in Canada and some similar taxes in the United States) and sales or excise taxes on capital components.[2] Canadian personal taxes on investment income (dividends, capital gains and interest income) also reduce the rate of return earned by Canadians who own stocks and bonds issued by businesses.

However, depending on the nature of the business, Canadian taxes have quite different effects on investment in Canada. Large multinational companies raise capital from international markets to fund projects in Canada. Thus, Canadian business taxes reduce the rate of return on capital offered by large corporations to Canadian and non-resident owners who provide financing to Canadian businesses through these capital markets. Such taxes will discourage investments made by these large businesses. Canadian personal taxes on investment income are less relevant to determining the international cost of funds for multinational corporations because funds could be acquired from international markets if personal income taxes discourage Canadian investors from saving and investing.

Such is not the case for Canadian-controlled entrepreneurial investments, which depend on their Canadian owners to provide capital. Entrepreneurs provide

2 All three taxes are included in estimates provided later. Property taxes are excluded since no data are collected in Canada to estimate property tax burdens by industry.

over one-half of start-up business financing and about one-quarter of funding for continuing operations of their privately held companies (Statistics Canada 2002). Friends and relatives of entrepreneurs provide at least another ten percent of funding. As well, in Canada some special corporate tax concessions are provided to very small Canadian-controlled private corporations. For instance, small business with taxable capital[3] of less than $15 million can pay tax at a federal rate as low as 13.12 percent (federal), as well as at lower rates in most provinces except Quebec. The low rate of tax, which is about 15 points less than the rate applying to larger companies, applies to the first $200,000 of active business income.

The Effective Tax Rate on Capital

Effective tax rates on capital are calculated by estimating taxes paid as a percentage of the income earned by a project that has just enough revenue, after payment of taxes, to attract funding from investors (the marginal project). Projects with high (low) effective tax rates must earn higher (lower) pre-tax rates of return on capital if they are to attract the interest of investors for a given after-tax required rate of return on investments (see Chen 2000 for further discussion).

The effective tax rate on capital incorporates all the features of income, capital and sales taxes that impinge on the use of capital in production.

For the corporate income tax, the effective rate depends not only on the statutory corporate income tax rate but also on provisions for tax credits (research and development and Atlantic investments) and the deduction of expenses related to the economic costs incurred with holding capital. If the tax system provides cost deductions and tax credits that have a tax value more than that if the economic cost of holding the asset were to be deducted, the tax paid as a portion of profits is less than the statutory tax rate (or vice versa). Further, debt financing reduces the amount of corporate income tax paid on investments because interest expenses are deductible from corporate income. On the other hand, capital taxes and sales taxes on capital components increase the effective tax rate.

The effective tax rate as described above is a more complete measure of the impact of taxes on investment than others more commonly known. People often only compare the statutory income-tax rates to measure competitiveness, such as the average federal-state corporate income tax rate of 39 percent in the United States, 35 percent in Canada, or 28 percent in Sweden.[4] While statutory tax-rate differences matter for some economic decisions made by investors — for example,

3 The favourable small business rate is phased out when the Canadian-controlled private corporation has more than $10 million in taxable capital (fully phased out when taxable capital reaches $15 million). Taxable capital refers to the capital subject to tax under the large corporations tax for companies. This tax applies effectively to gross assets of the corporation (shareholders' equity plus most forms of debt).

4 The Department of Finance uses for competitiveness comparisons corporate tax rates that are the statutory income-tax rates, including capital taxes paid as a percentage of corporate taxable income (see Federal Budget 2001, for example). This statistic is quite meaningless and confusing. It provides no information about how investment might be affected because the statistic does not adjust for other aspects of the tax system, such as depreciation and inventory-cost deductions or sales taxes on capital inputs.

Table 1: ***Effective Corporate Tax Rates on Capital for Large Corporations: 2002 and 2006***

	Canada 2002	Canada 2006	United States 2002
		(%)	
Forestry	31.9	29.2	15.7
Manufacturing	18.8	18.2	16.8
Construction	29.3	26.1	19.8
Transport	24.6	22.4	10.3
Communications	22.7	20.1	12.2
Electrical Power	29.5	18.4	13.8
Wholesale Trade	29.4	26.4	19.6
Retail Trade	29.4	26.8	17.1
Other Services	30.6	27.4	19.2
Structures	22.1	19.7	17.8
Machinery	26.1	24.8	14.7
Inventory	39.3	35.8	17.7
Land	22.1	19.5	17.7
Aggregate	**24.3**	**22.2**	**16.8**

Source: International Tax Program, Institute of International Business, University of Toronto.

businesses will shift interest income from high- to low-statutory tax-rate jurisdictions and interest expense from low- to high-statutory tax rate jurisdictions because the overall tax paid will be reduced by deducting interest from income in the high statutory tax-rate jurisdiction and including interest in income in the low statutory tax-rate jurisdiction — capital investment decisions will depend on all provisions affecting marginal effective tax rates.

It is, therefore, quite possible for a country to have low statutory tax rates, which help counteract income-shifting and protect the tax base in a country, but higher effective tax rates on capital investment if other provisions of the tax law erode competitiveness. This is important to keep in mind because Canada's federal-provincial average statutory corporate income tax rate is about 35 percent in 2003 (possibly 31 percent by 2006), which will be less than the average corporate income tax rate of 39 percent in the United States.

Large Corporate Investments

Canadian companies investing in Canada and elsewhere face quite different tax regimes across the world. Given the importance of the US market for investments in Canada and the United States, we provide a sector-specific analysis of Canada's and the United States' effective tax rates on capital in this section.[5]

Table 1 provides the effective corporate tax rates on capital by non-resource sector in Canada and the United States. As discussed, Canadian personal taxes are ignored because funds are raised from international capital markets. Two calculations are provided; one for 2002 and a second for 2006, the latter assuming that cuts in corporate income and capital tax rates at federal and provincial levels have been fully phased in.

As is shown in the table, Canadian effective tax rates were well above US effective tax rates by over seven percentage points in 2002 and will still be over five percentage points higher in 2006. Thus, despite the reductions in statutory corporate income-tax rates in Canada to levels below those in the United States,

5 Investments include structures, machinery, inventories and land. Research and development is not included in these estimates as is done in Mintz (2001). The effect of the R and D tax-credit regime is to lower the effective corporate tax rate by about a percentage point in Canada, in part because R and D is a small portion of business investment. However, when research and development grants are included, which is more common in the United States (see Mintz 2001), differences between Canadian and US rates, aggregated for all industries, are virtually unaffected by incorporating for R and D tax credits and grants.

Table 2: ***Decomposition of Canadian Effective Corporate Tax Rates on Capital by Industry for 2006***

	Corporate Income Tax Only	Corporate Income and Sales Taxes on Capital Inputs	Corporate Income, Sales and Capital Taxes
		(%)	
Forestry	15.5	22.8	29.2
Manufacturing	7.2	9.3	18.2
Construction	16.1	19.6	26.1
Transport	7.9	13.8	22.4
Communications	8.9	11.7	20.1
Electrical Power	9.4	10.5	18.4
Wholesale Trade	14.5	20.1	26.4
Retail Trade	12.3	20.0	26.8
Other Services	15.1	20.8	27.4
Structures	11.9	11.9	19.7
Machinery	7.5	22.7	24.8
Inventory	29.1	29.9	35.8
Land	13.7	13.7	19.5
Aggregate	**12.0**	**16.8**	**22.2**

Source: International Tax Program, Institute for International Business, University of Toronto.

Canada's business-tax system will remain uncompetitive even when the planned cuts are fully phased in.

Despite the lower statutory tax rate in Canada, the higher level of taxation in Canada arises for several reasons:

- Federal and provincial governments levy capital taxes that are rare in the United States.[6]
- Canadian depreciation deductions are less generous than those provided in the United States. With the adoption of accelerated depreciation in the United States in 2002, US effective tax rates on capital have been reduced by over 1.7 percentage points averaged across all non-resource industries. This provision, to be applied for the next three years, results in 30 percent of assets with lives of less than 20 years being written off immediately, with the balance subject to normal annual depreciation. Although the accelerated depreciation provision is temporary, indications are that US policy makers in the next several years will push for substantial corporate tax reform that might result in the provision being made permanent or replaced by another provision that provides substantial corporate tax relief in the United States.
- Inventory cost deductions are less favourable in Canada than in the United States. Canadian companies must write off, first, the cost of inventories according to the oldest inventory in stock (First-in-First-out inventory costing),

6 For example, Massachusetts has a capital tax on tangible and net intangible assets applied at a rate of 0.7 percent. However, most states do not impose such taxes at all. There is no US federal capital tax. The Canadian large corporations tax is levied at 0.225 percent of assets, although the amount is reduced by the corporate income surtax equal to 1.12 percent of profits. About 80 percent of Canadian companies pay some LCT.

Table 3: ***Effective Corporate Tax Rates on Capital for 2006 by Major Province***

	Alberta	British Columbia	Ontario	Quebec
		(%)		
Forestry	18.7	28.1	29.3	18.7
Manufacturing	12.5	15.3	17.8	16.2
Construction	19.8	24.6	25.2	22.1
Transport	12.6	19.7	22.5	16.5
Communications	13.6	17.2	19.4	17.1
Electrical Power	13.6	15.7	17.6	16.7
Wholesale Trade	18.5	25.1	26.1	20.9
Retail Trade	16.6	25.1	26.7	19.5
Other Services	27.4	26.1	27.1	22.0
Structures	16.1	17.2	18.5	18.9
Machinery	12.9	28.8	31.7	17.3
Inventory	33.6	35.5	34.3	35.0
Land	16.9	18.0	18.5	18.9
Aggregate	**16.3**	**22.2**	**23.7**	**19.2**

Source: International Tax Program, Institute for International Business, University of Toronto.

while US companies can use the cost of the latest inventory in stock (Last-in-First-out). Even with mild inflation, this provides an important advantage to US companies.

In Table 2, we provide a breakdown of effective tax rates in Canada for 2006 according to their components, including corporate income taxes, capital taxes and sales taxes on capital inputs. Corporate income taxes alone result in an effective tax rate for non-resource industries equal to 12 percent. Provincial sales taxes on capital inputs raise the effective tax rate to about 17 percent. Federal and provincial capital taxes add a further five points to the effective tax rate, resulting in an aggregate rate of 22 percent. Capital taxes raise the effective tax rate on structures by more than 50 percent and increase substantially the effective tax rate on inventories and land by almost six percentage points.

Effective rates also vary by province (Table 3). By 2006, Ontario's effective tax rate on capital will be 24 percent, British Columbia's, 22 percent, Quebec's, 19 percent and Alberta's, 16 percent. These provinces account for almost 90 percent of corporate profits in Canada. Compared to the United States, with an effective tax rate of 17 percent, only Alberta will be competitive with respect to the taxation of capital. Alberta's advantage arises from having no provincial sales tax and capital tax, with a relatively low corporate income-tax rate (taken to be 11 percent).

If Canadian effective tax rates on capital on large businesses were brought to levels below or close to those of the US market, several policy actions could be considered to eliminate disadvantages, beyond the planned cuts to corporate income and capital taxes. For example, the full elimination of federal and provincial capital taxes and the reform of provincial sales taxes to eliminate taxes on capital components would reduce the effective tax rate on capital on average from 22 percent to close to 12 percent by 2006, well below the US effective tax rate on capital. If federal and provincial capital taxes were eliminated by 2006, the effective tax rate in Canada would be just over 17 percent, close to that in the United States.

Entrepreneurial Investments

Not only do business taxes reduce returns on investments for entrepreneurs, so too do personal income taxes on dividends, capital gains and interest income. As

Table 4: ***Corporate and Personal[a] Statutory Tax Rates on Investment Income for 2001***

	Corporate – Large	Corporate – Small	Personal – Interest	Personal – Dividends	Personal – Capital Gains
Canada	34.0–41.4	19.9	46.0	31.3	23.0
France	36.4	25.0	60.1	40.2	20.8
Germany	39.6	n.a.	53.8	10.3	26.9[b]
Italy	40.3–44.5	n.a.	12.5–27.0	12.5	12.5
Japan	42.6	34.2	20.0	20.0	20.0
U.K.	30.0	30.0	40.0	25.0	10.0
U.S.	39.5	20.9–39.7	43.7	43.7	23.6[c]
Ireland	10.0–20.0	12.5	24.0	20.0	20.0
Sweden	28.0	n.a.	30.0	30.0	30.0

[a] Personal tax rates are for the highest income investors.

[b] For participatory shares in a closely-held German business. Portfolio capital gains are exempt.

[c] Includes state level personal taxes which are deductible from federal rates. Long-term (more than one year) gains are subject to a federal rate of 20.0 per cent and average state rate of 6.87 per cent in the US.

discussed above, both business and personal taxes affect the incentive to invest in entrepreneurial capital.

Canada is reducing both corporate income taxes and personal taxes as applied to income derived from investments. Generally, federal and provincial governments have lowered personal taxes on income, the top rate falling from over 51 percent in 1999 to about 46 percent in 2001. As well, since the end of 2001, only one-half of capital gains are subject to tax, compared to three-quarters in 2000. Dividend taxes paid by individuals are reduced by federal and provincial dividend-tax credits to partly offset corporate income taxes payable prior to the distribution of profits.

Countries exhibit considerable variation in their treatment of entrepreneurial capital.[7] At the corporate level, some countries, including, Germany, Italy and Sweden, do not provide special tax concessions for small businesses. However, Canada, France, Ireland (until 2004), the United Kingdom and the United States have preferential regimes for small businesses. At the personal level, tax rates depend on the progressivity of the marginal tax-rate schedule as well as reduced levels of tax for dividends, capital gains and interest. The corporate and personal income-tax rates by source of income are provided in Table 4.

Table 5 provides the 2001 estimates of effective tax rates on capital, combined for both corporate and personal taxes. Two calculations are provided. The first is for the medium-size case in which the small business provisions are not applicable. The second is for the small-size case in which preferential treatment is provided for entrepreneurs investing in companies of less than $10 million in asset size (Canadian rules). Calculations are provided for manufacturing and service companies.[8] It is assumed that entrepreneurs finance investment by 60 percent

7 All these calculations are based on Chen, Lee and Mintz 2002. As personal tax data lagged one year for cross-country comparisons, we could not provide 2002 calculations as in Table 1. Note that there are some differences in assumed interest rates, inflation rates and other parameters for 2001 in comparison to 2002. See the above publication for further discussion of assumptions. Personal taxes are calculated as a percentage of rates of return, adjusted for inflation. Capital gains taxes take into account the deferral of tax arising from the holding of assets for ten years.

8 Note that there are some considerable differences in effective corporate tax estimates between Table 1 and 5 for larger companies. This reflects differences in interest rates, inflation rates and the net-of-tax rate of return on capital as well as lower corporate tax rates in 2002 compared to 2001.

Table 5: ***Effective Corporate and Personal Taxes on Entrepreneurial Capital For Selected Countries in 2001***

	Large Firm – Manufacturing	Large Firm – Services	Small Firm – Manufacturing	Small Firm – Services
		(%)		
Canada				
corporate	27.7	28.1	12.0	9.5
personal	44.7	44.4	54.4	55.9
combined	72.4	72.5	66.4	65.4
France				
corporate	13.6	15.2	13.7	19.5
personal	78.5	77.0	78.4	76.7
combined	92.1	92.2	92.1	92.3
Germany				
corporate	28.4	19.5	28.4	19.5
personal	52.8	59.4	52.8	59.4
combined	81.3	78.9	81.3	78.9
Italy				
corporate	22.0	29.0	19.4	26.4
personal	23.9	21.7	24.7	22.5
combined	45.9	50.7	44.1	48.9
Japan				
corporate	26.0	25.3	19.6	19.3
personal	25.6	25.9	24.7	28.0
combined	51.7	51.2	47.5	47.3
U.K.				
corporate	19.4	13.8	11.1	8.2
personal	43.3	46.3	47.8	49.3
combined	62.7	60.1	58.9	57.6
U.S.				
corporate	22.3	21.0	9.2	5.5
personal	47.4	48.2	55.4	57.7
combined	69.7	69.2	64.6	63.5
Ireland				
corporate	4.2	7.5	4.2	4.3
personal	31.2	30.1	31.2	31.3
combined	35.4	37.6	35.4	35.5
Sweden				
corporate	16.0	12.2	16.0	12.2
personal	37.2	38.8	37.2	38.8
combined	53.2	51.0	53.2	51.0

Source: Chen, Lee and Mintz (2002)

equity and 40 percent debt.[9] Further, 40 percent of shareholders' income (equity) is in the form of dividends, the balance in capital gains.

For the large-company case, the combined corporate and personal tax on entrepreneurial capital in Canada was 72 percent in 2001. Although this is below effective rates in France and Germany, entrepreneurs in Canada are more highly taxed than in Italy, 46 percent, Japan, 52 percent, the United Kingdom, 63 percent, Ireland, 35 percent, Sweden, 53 percent and, to a lesser degree, the United States, 70 percent.[10] The much lower effective tax rate in Sweden compared to Canada reflects the dual income-tax structure in Sweden where corporate income is subject to a tax rate of 28 percent and dividends, capital gains and interest are subject to a tax rate of only 30 percent, well below personal taxes that apply to other sources of income.

A case in point is Ireland, which has been the fastest growing industrialized economy of the past 20 years (Honohan and Walsh 2002). Ireland's relatively low effective tax rate on entrepreneurial capital is in part due to the low corporate income tax (10 percent in manufacturing and 20 percent in services), as well as relatively low personal taxes on income derived from investments.

The US rates would be even further below the Canadian rates if dividends are exempted from taxation as recently proposed by President George W. Bush. The

9 An alternative set of calculations in which some of the entrepreneurial financing is in the form of only equity is also provided by Chen, Lee and Mintz (2002), but the differences do not change the relative comparisons in a material way. Investments that are more debt-financed have lower effective tax rates at the corporate level but higher rates at the individual level since interest income tends to be more highly taxed than dividends or capital gains for an investor.

10 With accelerated depreciation, the US effective tax rates as estimated for 2001 would be reduced by a further 1.7 percentage points.

impact would be to reduce the effective tax rate on entrepreneurial capital by about ten percentage points.

For small firms, the effective tax rate on entrepreneurial capital in Canada drops from 72 to 66 percent, reflecting the lower corporate income tax rate on small Canadian-controlled private corporations.[11] Even with the more generous corporate treatment of small business in Canada, the effective tax rates in Canada are well above those of other countries, excluding France and Germany.

Surprisingly, the overall tax imposed on entrepreneurial capital in 2001, taking into account both corporate and personal taxes, is quite substantial in Canada. The combined tax rate of 72 percent for large companies and 66 percent for small ones is significant. It implies for each dollar of profit, adjusted for inflation and risk, federal and provincial governments take at least two thirds of the return on investments through corporate and personal taxes. Although the results do not reflect some corporate tax cuts that were adopted in 2003 to be phased in by 2006, the overall level of taxes on entrepreneurial income would remain well above 60 percent of inflation-adjusted income. Thus, despite the corporate and personal tax cuts being considered, Canada's tax system is onerous and uncompetitive with respect to the taxation of entrepreneurial income.

Conclusions

The relatively high level of taxation imposed on business and entrepreneurial capital in Canada should be of considerable concern to anyone hoping to see a substantial improvement in productivity. Taxes impede capital investment by reducing the return that investors can derive from capital projects in Canada. With lower taxes, more investment projects could be brought on stream, improving labour productivity and providing greater incomes for Canadian employees. The improvement in productivity brought on by investment ultimately translates into a higher standard of living.

From a taxation point of view, Canada looks less competitive than the United States, despite the advantage of having a lower statutory corporate income-tax rate. Even with the latest improvement in Canada's growth, primarily due to more robust employment and a recovery in resource prices, Canada's productivity remains below that of the United States (Bernstein, Harris and Sharpe 2002).

As an indicator for the future, the outlook for Canada in terms of attracting investments in North America is not particularly bright when taking tax considerations into account. Canada's tax system creates a barrier to investments, eroding our ability to improve labour productivity and adopt new technologies. With our smaller market and less depth in capital markets, Canada's natural disadvantages are made worse by its tax system. Rather than adopting policies that create a competitive advantage, most Canadian political leaders are pursuing tax policies that create a disincentive for investment. It is true that taxes help pay for some important public services, but as documented in Mintz (2001), the subsidies providing advantages to businesses through our public programs are substantially

11 If small companies are all equity-financed by the entrepreneur, the effective tax rate drops from 73 percent (large-company case) to 63 percent (small-company case) for 2001.

less than the disadvantages created by our tax policies. This should not be surprising since a substantial portion of tax revenue is used to cover public debt charges that provide no program benefits to Canadians.

Canadians cannot sit back and believe that they have achieved their best in cutting taxes on business and entrepreneurial investments in the past few years. Our standard of living will be significantly compromised in this decade if we believe that we can veer from a course of tax reductions in the near future. Instead, further cuts to corporate and personal taxes in upcoming federal and provincial budgets would improve our productivity and incomes measurably. The lesson for finance ministers and their leaders: *Carpe diem*.

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